

California

Dairy Review

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Department Expands Call of Hearing

The Secretary of Food and Agriculture is expanding the call of the July 1, 2008 public hearing to consider changes in the transportation allowances as provided in the Pooling Plan for Market Milk (Pool Plan) and the changes in the transportation credits as provided in the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Stab Plan). This is in addition to the technical amendments to the Pool Plan as announced in the April 25, 2008 hearing notice called on the Secretary's own motion. The expanded scope of the hearing is in response to the petition received May 2, 2008, from California Dairies, Inc. (CDI). The hearing will be held on Tuesday, July 1, 2008, 9:30 a.m., at the California Department of Food and Agriculture's (Department) main auditorium located at 1220 N Street in Sacramento.

On May 2, 2008, the Department received a petition from California Dairies, Inc. (CDI) proposing:

1. Amendments to the Pool Plan that would increase transportation allowances to qualifying plants in three receiving areas: Bay Area, San Diego, and Southern California; and
2. Amendments to the Stab Plans that would increase transportation credits from Tulare County to Los Angeles, Orange, and Ventura counties.

The Department's Milk Pooling Branch is proposing the following amendments:

1. An amendment to insert a definition for the new Dairy Accounting System that will replace the program used by the Department to administer the Pooling Plan.
2. Amendments to provide for use of actual solids-not-fat (SNF) in pool reporting and pool calculations rather than relying on an Average SNF Test to convert skim milk volumes to SNF content.
3. An amendment to provide that the Department make use of the most current available version of PC Miler® distance measuring program released by ALK Technologies instead of the Public Utilities Commission (PUC) Mileage Tables for calculation of the distance between dairy facilities within the state.

Continued on Page 3



California Department of Food and Agriculture
A.G. Kawamura, Secretary

Production, Prices, Quota Transfers, Alfalfa

April Milk Production

Milk production in California for April 2008 totaled 3.50 billion pounds, up 1.8 percent from April 2007. USDA's estimate for U.S. milk production for April 2008 in the 23 major dairy states is 14.8 billion pounds, up 2.5 percent from April 2007. Production per cow in the 23 major states averaged 1,757 pounds for April, 12 pounds above April 2007. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	April	May	June
1	\$20.06	\$18.92	\$20.37
2	\$15.12	\$15.12	N/A
3	\$14.96	\$14.96	N/A
4a	\$14.31	N/A	N/A
4b	\$16.79	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	April	May	June
Phoenix, Arizona	\$20.96	\$18.97	\$20.53
Southern California	\$20.19	\$19.05	\$20.50
Portland, Oregon	\$20.51	\$18.52	\$20.08
Northern California	\$19.92	\$18.78	\$20.23
Boston (Northeast)	\$21.86	\$19.87	\$21.43

Alfalfa Update: May

Northern California: Premium and Supreme alfalfa were steady with good demand and moderate supplies. Fair and Good alfalfa was steady with good demand and light supplies. Retail and Stable hay was steady with good demand and supplies moderate. High winds late in the month delayed some hay production. There are concerns about how dry the northern areas are and the availability of water.

Southern California: Supreme and Premium alfalfa was steady with good demand but light to moderate supplies. Fair and good alfalfa was steady with moderate supplies and demand. Retail and stable hay was steady with good demand and moderate supplies. Late month wind and cool weather limited hay production. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	5/2	5/9	5/16	5/23
Petaluma	\$245-255	\$245	\$250	\$245
North Valley ¹	\$235-268	\$245-270	\$250-268	\$248-270
South Valley ²	\$255-275	\$255-276	\$257-275	\$255-280
Chino Valley	\$250-255	\$240-260	\$258	N/A

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

	April	May
Tons Sold ¹	182,641	332,133
Tons Delivered ²	118,910	167,893

¹ For current or future delivery.

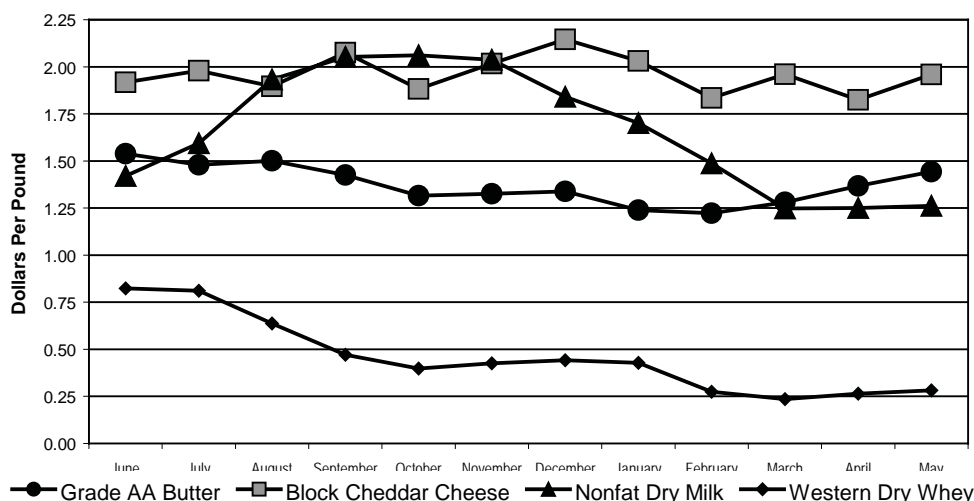
² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Quota Transfer Summary

For April 2008, three dairy producers transferred 4,659 pounds of SNF quota. April quota sales averaged \$528 per pound of SNF (without cows), average ratio of 2.35. For May 2008, six dairy producers transferred 9,166 pounds of SNF quota. May quota sales averaged \$530 per pound of SNF (without cows), average ratio of 2.49. ☀


Grade AA Butter, Block Cheddar Cheese, Nonfat Dry Milk, and Western Dry Whey Mostly Prices Used in the Calculation of California Class 1 Milk Prices



The hearing will consider amendments to the Pool Plan and Stab Plans in effect on July 1, 2008. In particular, the hearing will consider specific amendments to the Pool Plan regarding insertion of a definition for the new Dairy Accounting System that will replace the program used by the Department to administer the Pooling Plan (Reference new Section 134 of the Pool Plan). The hearing will also consider amendments to the Pool Plan to require reporting and use within the new Dairy Accounting System of actual solids-non-fat (SNF) content of milk received and utilized by reporting handlers.

The hearing will also consider amendments to the Pool Plan to determine distances for Transportation Allowances using PC Miler® to replace the PUC Mileage Tables (Reference Article 9.2, new Sections 921.5, 922.5, and 923.5). The hearing will also consider CDI's proposal both to amend the Pool Plan regarding transportation allowances and to amend the Stab Plans regarding transportation credits. Finally, the hearing will consider all the provisions for transportation allowances and for transportation credits.

All interested parties are entitled to submit proposals detailing alternatives within the call of the hearing. These proposals must be signed by a responsible party and received by the Department's Dairy Marketing Branch no later than 4:00 pm on Tuesday, June 3, 2008. The Dairy Marketing Branch's office location is at 560 J Street, Suite 150, Sacramento, CA 95814. Alternative proposals may also be sent electronically via email to dairy@cdfa.ca.gov, faxed to (916) 341-6697, or mailed to Hearing Officer, c/o Cdfa Dairy Marketing Branch, 1220 N Street, Sacramento CA 95814.

The Department will conduct a public workshop on Tuesday, June 17, 2008 at the Department's auditorium located at 1220 N Street in Sacramento, beginning at 10:00 a.m. The purpose of the workshop is to provide interested persons with the opportunity to fully understand and clarify the purpose and intent of the proposed new Section 134, the proposed new Subsections 802.5, 921.5, 922.5 and 923.5 of the Pool Plan, the adjustments to the transportation allowances and transportation credits that were proposed by CDI, and any alternative proposals that may be submitted for consideration for the hearing. For more hearing related data and information visit the website at www.cdfa.ca.gov/dairy: click on Hearing Matrix and then July 1, 2008 Hearing. 


Reduced Cottonseed Supplies

According to the USDA, cotton acreage is expected to shrink by 1.44 million acres, down to 9.39 million acres. Soybean acres are expected to increase by 11.2 million acres and wheat by 3.4 million acres. Tom Wedegaertner, director, cottonseed research and marketing, Cotton Incorporated, noted that "With cotton production projected at 14.5 million bales, 25 percent below last year, cottonseed availability will follow suit," he adds. "As we head into another year of limited supply, we'll be closely watching the use of cottonseed in dairies. This year, we're looking at close to \$400 per ton, and 50% of the cottonseed available two years ago.

Rick Titel, a ration analyst for Agri-Nutrition Consulting, Inc., DeForest, Wis., and dairy nutrition consultant for TLC Tech Services, Eldorado, Wis., notes that before the price of cottonseed started to rise, he was recommending up to 5-6 pounds of whole fuzzy cottonseed per head per day. Producers who booked cottonseed last fall are in the best situation. If producers are buying as they go, it is recommended keeping it at the 2-pounds-per-head-per-day level for the high producers.

"I've been consulting for 20 years and have seen that when you try to replace the oil in cottonseed, cows lose body condition over time," he adds. "Plus, cottonseed is a great source of forage-type neutral detergent fiber that can be used for forage replacement. For producers in some parts of the country, cottonseed could actually be a cost-effective alternative to high-quality hay."

Titel says producers should carefully weigh the pros and cons when replacing an ingredient. "For instance, you cannot wholly replace the oil in cottonseed with distillers' grains, but you can replace a part of it," he says. When you have a high-production herd, you could risk losing production by taking out too many things.

For information on cottonseed, market conditions, feeding information, and a list of suppliers, visit www.cottoninc.com 

Proposed Farm Bill

Dairy Highlights

In late May, the 2008 Farm Bill became law, despite a veto by President Bush. About two-thirds of the bill will pay for nutrition programs such as food stamps and emergency food aid for the needy. An additional \$40 billion is for farm subsidies while almost \$30 billion would go to farmers to idle their land and to other environmental programs. The following excerpts from the National Milk Producers Federation are a few highlights of the dairy-related issues of the Farm Bill.

Dairy Product Price Support Program

Establishes a dairy product price support program (shifting the basis of the program from milk to the specific CCC-purchased products), provides for temporary price support adjustments, and restores the 110 percent minimum CCC commercial sell-back price rule. The specific dairy product price support levels are the same as the current CCC purchase prices: \$1.13 per pound for cheddar cheese blocks, \$1.10 for cheddar cheese barrels, \$1.05 per pound for butter and \$0.80 per pound for nonfat dry milk.

Milk Income Loss Contract Program

The MILC program is extended, raising the payment cap after September 2008 from 2.4 million to 2.985 million pounds and restoring the payment rate to 45% of the difference between Boston Class I and \$16.94. It also addresses concerns about rising input costs by incorporating a feed cost adjuster, which raises the target milk price when the standard NASS dairy feed mix price rises above \$147 per ton.

Energy

Multiple new energy programs are incorporated, including \$300 million for programs in which energy is derived from agriculture waste. Important existing energy programs such as the Renewable Energy Systems and Energy Efficiency Improvements Loan Guarantee Program (renamed the Rural Energy for America Act), the Biomass Research and Development Act of 2000, and the Bioenergy and Bioproducts Research Initiative are extended. In addition, the Farm Bill increases the limit on the maximum amount of the combined loan and grant for animal waste renewable energy projects from 50 percent to 75 percent of the funded activity, while limiting the maximum amount of loan guaranteed to 75 percent of the funded activity and not more than \$25 million.

Dairy Promotion and Research Program

The Dairy Promotion and Stabilization Act of 1983, is amended by changing the authorization of the national checkoff to include all 50 states plus Puerto Rico and

the District of Columbia. The inclusion of all domestic producers in the promotion checkoff allows for imported dairy products to also be assessed. The Bill specifies that imports will be assessed at the rate of \$0.075 per cwt. of milk equivalent, one-half the rate at which domestic producers are assessed.

Dairy Forward Pricing Program

This program is revived with three important producer safeguards: 1) processors cannot make participation a condition of receiving milk; 2) Class I milk is excluded; and 3) the program sunsets at the end of the Farm Bill. NMPF will work with USDA to see that a fourth safeguard, USDA enforcement of contract prices, is achieved through the requirement that payment be made "in accordance with the terms of a forward price contract" in order to satisfy minimum payment requirements.

Dairy Export Incentive Program

The DEIP program is extended for the duration of the Bill.

Revision of Federal Marketing Order Amendment Procedures

USDA will be held to stricter deadlines from the time a petition is submitted until the time of final decision in Federal Order hearings. This will speed up Federal order proceedings and put a greater burden on petitioners to clearly establish their case up front. USDA is also required to consider feed and fuel costs in any make allowance hearing.

Dairy Indemnity Program

The Dairy Indemnity Program is extended through 2012.


Report on Department of Agriculture Reporting Procedures for Non-Fat Dry Milk

The Secretary of Agriculture is directed to issue a report to Congress on recent milk powder price reporting errors and their impact on Federal order prices.

Mandatory Reporting of Dairy Commodities

The current mandatory reporting of dairy product sales, prices, and storage is expedited by requiring electronic reporting; it also establishes regular audits and calls for an increased frequency of reporting. This is subject to funding availability.

Bovine Johne's Disease Control Program

The current Johne's Disease program is extended through 2012. 

CWT Committee Approves Bred Heifer Retirement Option

When the next Cooperatives Working Together (CWT) herd retirement program is announced, producers submitting bids to remove their milking and dry cows will have the option of offering all their bred heifers as well.

Specifically: at the time CWT announces a herd retirement, it will announce the price per head it is willing to pay a dairy farmer for his/her bred heifers. Since dairy farmers have bred heifers ranging from those just freshened to springers, the CWT Committee agreed that a flat price per head was the most logical way to operate the bred heifer option in conjunction with a herd retirement bid. To do anything else would make the herd retirement bid selection process far too complicated.

A producer bidding in the herd retirement will not be required to offer his/her bred heifers. Whether the bred heifer option is selected will have no bearing on whether the producer's herd retirement bid is selected. However, if the herd retirement bid is not selected, the bred heifers offered will not be taken either.


A motion to adopt this proposal was tabled when the CWT Committee met in November so CWT staff could develop specific procedures as to how a bred heifer retirement program would work in conjunction with a herd retirement. The proposed procedures were reviewed by the herd retirement task force and approved to be presented to the CWT Committee which gave final approval to the option in January. A complete description of the bred heifer option including answers to frequently asked questions about the program are available on the CWT website, www.cwt.coop.

Questions/Answers from the CWT Website:

Question: How does CWT determine the right time to execute a herd retirement program?

Answer: By continuously monitoring a number of benchmark economic indicators. The saying goes, "Timing is everything," and that is certainly true when it comes to executing a herd retirement program to get the maximum bang for the dimes producers are investing in CWT. Watching various economic indicators is essential to getting the timing right. There are several economic indicators that CWT follows and no single indicator is the key. For the first and second herd retirements, the number of

cows in the national dairy herd was a key indicator. An increase in the number of dairy cows being culled was an important factor considered when the 2007 herd retirement was announced. In addition to cow numbers and the number of cows being culled, CWT tracks milk production, dairy product inventories, commercial sales of dairy products and, of course, milk prices.


For 2008, CWT has added another benchmark, the cost of producing milk. Most dairy farmers would be happy with a \$17.00 milk price, unless operating costs (feed, direct energy, hired labor and other operating costs) are also \$17.00 or more. The simple fact of the matter is that \$20.00 milk in 2008 will be comparable to \$14.00 milk in 2006 when the cost of production is taken into consideration. Dairy farmers need to remember that CWT is a national program. Therefore, the benchmarks it monitors must be national benchmarks. Some regions of the country may be squeezed before other regions, but overall the benchmarks will tell CWT when to execute a herd retirement so to strengthen and stabilize dairy farmer milk prices. 

NMPF Supports Ban on Nonambulatory Animals in the Food Supply

As part of a joint statement with the American Meat Institute and the National Meat Association, the National Milk Producers Federation (NMPF) announced that it believed that USDA should not allow any nonambulatory, or downer, cattle into the nation's food supply.

The message came in response to a citizen petition filed by the three organizations in which they urged USDA to eliminate a regulation where veterinarians are currently allowed to re-inspect an animal that becomes nonambulatory after initially passing ante-mortem inspection.

When asked about the issue, NMPF President & CEO Jerry Kozak stated: "The reality is that our meat supply is extremely safe, but the entire livestock chain runs the risk of losing consumer confidence if the perception exists that animals which may be unhealthy are allowed to be processed into food for the public."

NMPF is developing educational materials for dairy farmers to help reinforce good cattle care practices. The materials are expected to be published early this summer. 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2007, USDA estimates that overall milk production across the U.S. was up 2.2% in April, led by New Mexico's 13.5% growth in milk production (on 3,000 more cows and 250 more pounds per cow). USDA reports that California's milk production was up 1.8% on 47,000 more cows and 15 less pounds per cow compared to April 2007. Among the western states, Arizona was up 4.7%; New Mexico up 13.5%; and Washington was up 3.7%. Three of the top 10 states reported a production decrease.


Quarterly: For the first quarter of 2008 compared to the fourth quarter of 2007, U.S. milk cow numbers increased to 9.250 million, production per cow increased 150 pounds per cow; the net effect was increased milk production to 47.6 billion pounds. USDA projects that for the second quarter of 2008 compared to the first quarter of 2008, U.S. milk cow numbers will increase to 9.275 million cows, production per cow will be up 114 pounds per cow; the net effect would be increased milk production to 47.7 billion pounds.

Milk Prices

Comparing the first quarter of 2008 to the fourth quarter of 2007, U.S. average milk prices were down to \$19.23/cwt. USDA projects that for the second quarter of 2008, U.S. average all-milk prices will be \$17.70-18.00/cwt.; Class 4b prices will be \$17.14-17.44/cwt; and Class 4a prices will be \$14.87-15.27/cwt.

Utility Cow Prices

Comparing the first quarter of 2008 to the fourth quarter of 2007, average U.S. utility cow prices were up \$4.40/cwt. to a national average of \$53.88/cwt. USDA projects that utility cow prices will average \$53-55 in the second quarter of 2008.


Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook." 

Dairy Advisor for San Joaquin, Stanislaus Counties

Jennifer Heguy (pronounced HAY--ghee) is the new University of California Dairy Advisor for San Joaquin and Stanislaus counties. "Agriculture is so important to (these counties), especially to this state, I really enjoy being part of something this big," Jennifer said.

Jennifer should play a valuable role in helping maintain the dairy industry, said Mick Canevari, UC Cooperative Extension director for San Joaquin County. "We've been sorely in need of a dairy adviser position for several years," he said adding that Heguy brings strong credentials to the post.

Heguy grew up in a farm family that ran a beef cattle operation outside Los Baños, where she was born and attended school. She was active in both 4-H and FFA in her youth and found her specialty, dairy nutrition, while majoring in animal science at the University of California, Davis. She received her master's degree in 2006.


Jennifer can be contacted at the UCCE Stanislaus and San Joaquin Counties Office in Modesto at (209) 525-6800. 

Lawsuit Awards California Dairy Producers \$22 Million

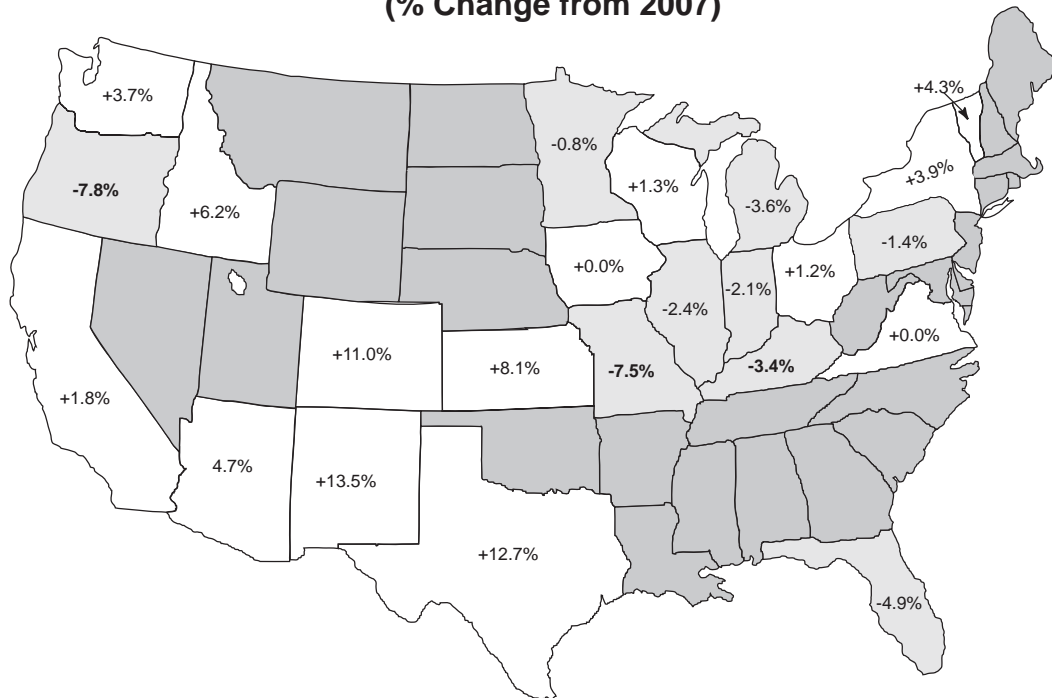
Eleven California dairy producers were awarded \$22M in a lawsuit against a cooperative because they were defrauded out of profits by the cooperative that marketed their milk.

Central Valley Dairymen CEO George Vieira and his wife took a portion of the cut when the milk was sold to processors and diverted it into California Milk Market, a separate company they owned, said Martin Reilley, the Santa Rosa-based attorney who represented the dairymen.

The court substantiated that from 1995-2003, approximately \$54 million in premium fees were not passed along to the dairy producers as accountants indicated that the Vieiras were keeping the premiums.

About \$4.5 million of the claim is against the Central Valley Dairymen for nonpayment for milk. The balance of the settlement is against the Vieiras for fraud. The \$22 million award will be divided among the 11 dairy producers based on how much milk they provided to the cooperative. 

April Milk Production in the Top 23 States (% Change from 2007)



For the U.S. overall, comparing April 2008 to April 2007:

- U.S. Milk production during April was up 2.2%
- The number of cows on farms was 9.266 million head, up 134,000 head
- Production per cow averaged 1,738 pounds, 8 pounds more than April 2007
- Nine of the top twenty-three milk producing states showed a decrease in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California ^{1/} By Quarter, 2007-2008

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
<i>Dollars per Hundredweight</i>										
1st Quarter										
Total Costs	17.52		13.33		13.16		13.17		13.31	
Total Costs & Allowances*	19.27		14.86		14.76		14.55		14.87	
2nd Quarter										
Total Costs	16.23		13.41		13.51		13.00		13.49	
Total Costs & Allowances*	18.15		15.13		15.29		14.53		15.25	
3rd Quarter										
Total Costs	17.12		13.62		14.20		13.76		14.01	
Total Costs & Allowances*	19.24		15.51		16.24		15.52		15.98	
4th Quarter										
Total Costs	19.01		14.93		15.04		14.46		15.03	
Total Costs & Allowances*	21.21		16.84		17.05		16.23		14.97	

* Includes an allowance for management and a return on investment

Pool Prices

Month	Quota	Overbase
October	\$12.87	\$11.17
November	\$13.31	\$11.61
December	\$13.50	\$11.80
January '07	\$13.70	\$12.00
February	\$14.45	\$12.75
March	\$15.28	\$13.58
April	\$16.33	\$14.63
May	\$18.29	\$16.59
June	\$20.70	\$19.00
July	\$21.60	\$19.90
August	\$21.74	\$20.04
September	\$21.69	\$19.99
October	\$21.16	\$19.46
November	\$21.93	\$20.23
December	\$20.79	\$19.09
January '08	\$19.14	\$17.44
February	\$18.42	\$16.72
March	\$17.71	\$16.01
April	\$17.56	\$15.86

Milk Mailbox Prices

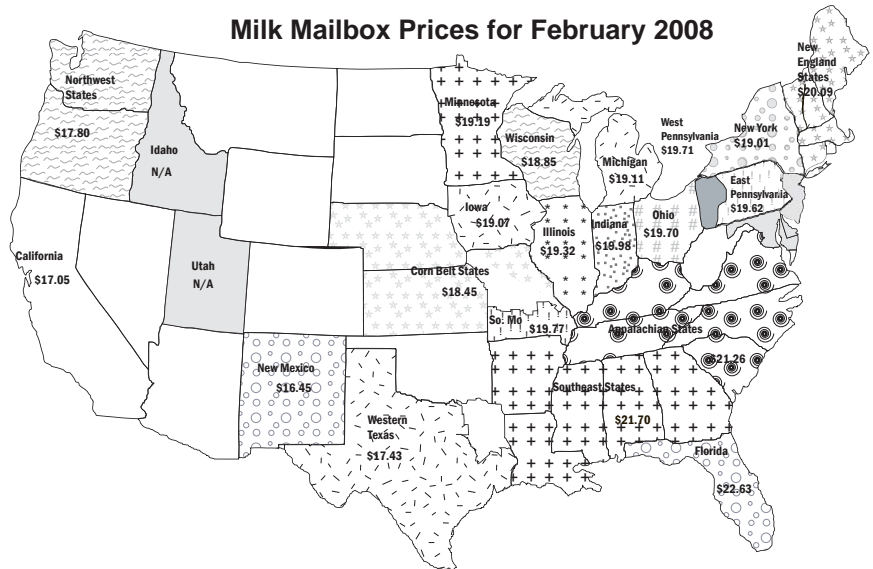
Milk Mailbox Prices in Dollars per Hundredweight

	August	September	October	November	December	January	February
California ¹	\$20.06	\$20.19	\$19.94	\$20.62	\$19.71	\$17.97	\$17.05
USDA ²	\$21.47	\$21.78	\$21.39	\$21.81	\$21.04	\$20.70	\$19.03

¹ California mailbox price calculated by CDFA.

² All federal milk market order weighted average, as calculated by USDA.

Milk Mailbox Prices for February 2008



In February 2008, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$19.03 per cwt., down \$1.67 from the previous month. The component tests of producer milk in February 2008 were: butterfat: 3.76%; protein, 3.10%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices decreased in all Federal milk order reporting areas except in Appalachian and Southeast States, and ranged from \$22.63 in Florida to \$16.45 in New Mexico.

Dairy Marketing Branch:
 Website: www.cdffa.ca.gov/dairy
 Phone (916) 341-5988; Fax (916) 341-6697
 Email: dairy@cdffa.ca.gov

Milk Pricing Information:
 Within California 1-800-503-3490
 Outside California 1-916-442-MILK

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdffa.ca.gov

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